

# Exhibit B

IN THE UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS

HOUSTON DIVISION

IN RE: § CASE NO. 19-35133-H1-11  
§ HOUSTON, TEXAS  
ALTA MESA RESOURCES, INC. §  
AND ALTA MESA HOLDINGS, LP, § THURSDAY,  
§ JANUARY 23, 2020  
DEBTORS. § 8:32 A.M. TO 4:58 P.M.

SALES HEARING (CONTINUED)

BEFORE THE HONORABLE MARVIN ISGUR  
UNITED STATES BANKRUPTCY JUDGE

APPEARANCES: (SEE NEXT PAGE)  
COURTROOM DEPUTY: TYLER LAWS  
COURT RECORDER: CLAUDIA GUTIERREZ

TRANSCRIPTION SERVICE BY:

JUDICIAL TRANSCRIBERS OF TEXAS, LLC  
935 ELDRIDGE ROAD, #144  
SUGAR LAND, TEXAS 77478  
Tel: 281-277-5325  
www.judicialtranscribers.com

Proceedings recorded by electronic sound recording;  
transcript produced by transcription service.

1 (No response.)

2 THE COURT: All right, thank you.

3 COURTROOM DEPUTY: All rise.

4 (Recess taken from 3:45 p.m. to 4:30 p.m.)

5 AFTER RECESS

6 COURTROOM DEPUTY: All rise.

7 THE COURT: We'll go back on the Record on Alta  
8 Mesa.

9 MS. RECKLER: Your Honor, Carolyn Reckler on  
10 behalf of the Debtors. You know, after working with all the  
11 parties I think what we're going to ask Your Honor to do is  
12 to please issue a ruling.

13 THE COURT: All right. This is a matter of  
14 whether to approve a sale process and a sale. We have  
15 jurisdiction over this under 28 U.S.C. Section 1334. This  
16 is a core matter under 28 U.S.C. Section 157.

17 I find that the sale should be approved to BCE;  
18 that it should be approved on the terms that have been  
19 proposed. These are my reasons why.

20 First we need to determine what the appropriate  
21 standard for review is. Under any standard the Debtors  
22 prevail today, so I will utilize the highest standard, even  
23 though I think a lower standard is probably the correct one.

24 The question I believe is whether the Court,  
25 having reviewed the Debtor's decisions, believes that they

1 have properly exercised their business judgment after  
2 careful scrutiny by the Court. But if the correct decision  
3 is one of overall fairness, I find that that standard two is  
4 not only met, but it clearly met.

5           There are a number of issues that have come before  
6 the Court when trying to go through the most important ones.  
7 If the parties send additional and more specific findings  
8 they can request that and I will try and get a written  
9 opinion out. I'm doing this orally, now, so that the  
10 parties can hear the ruling and file whatever appeals they  
11 want.

12           So that I am clear, however, I want any order that  
13 we sign to include the stay that will go through and not  
14 allow a closing by February 12th. That is not only for the  
15 purpose of the prior parties, who I excluded from  
16 participating, but also to allow the parties that remained  
17 in the litigation an opportunity to appeal and get a stay.

18           I am, however, quite confident that this is the  
19 correct ruling.

20           Both Debtors carefully reviewed what claims there  
21 were against BCE and its associated entities and people.  
22 That was done carefully, it was done independently, and it  
23 was supervised by directors who I find were completely  
24 independent.

25           There were places where minor glitches were

1 pointed out, I think by the opposing parties, but they were  
2 nowhere near sufficient to challenge the overall result that  
3 is there. There were extreme reports done, extreme analysis  
4 done, and millions of dollars spent to conduct this  
5 independent analysis. And when all is said and done, I  
6 didn't see any claims that I thought had material value.

7           The \$3.1 million that is given as a deduct to the  
8 BCE claim under a scenario, that isn't the one we have here,  
9 was a fair and reasonable estimate. The reason why it's not  
10 a fair and reasonable estimate is because of the treatment  
11 of the releases by the bonds claims means that there should  
12 not have been any deduction on that side, but instead a  
13 deduction on the bond side.

14           What are the claims against BCE? The one that we  
15 got an awful lot of focus on I think in this hearing, has to  
16 do with whether there was an error done by BCE or its  
17 directors, its appointed directors, with respect to the 2018  
18 drilling program.

19           There is simply no evidence, literally none that  
20 the initiation of that program was not done properly, that  
21 it was not done independently and that it was not done after  
22 thorough work.

23           The fact that it failed and that people were  
24 wrong, doesn't entitle one to make a bona fide claim against  
25 them. When I say there is no evidence, literally the only

1 thing that came into the Record is an email that repeats  
2 hearsay that an investor thinks more work should have been  
3 done, without any support that more work in fact should have  
4 been done. So the only thing I have is, it didn't work, and  
5 it didn't work isn't enough to file a lawsuit.

6 By the fourth quarter should money have stopped  
7 being spent. The evidence is that the company was  
8 addressing the issues. There is zero evidence that there  
9 was bias in the decision-making process in which BCE  
10 participated to keep the program going for what I will  
11 describe as unscientific means.

12 This is a drilling program. This is an E&P  
13 project. If someone invests in an E&P project for new  
14 technology in the Oklahoma STACK and doesn't think that  
15 there is a risk of failure, that's just crazy to think that  
16 you can then sue over that. It's a high-risk investment.

17 And when you get to the end and what the company  
18 is doing is struggling with how does it address the failure,  
19 it was struggling with that, it addressed it, it dealt with  
20 it, it considered it, it thought about what to do and I  
21 think it made decisions that maybe in retrospect they wished  
22 different decisions had been made, but decisions that don't  
23 subject them to sue.

24 With respect to every claim against BCE and its  
25 directors, there's another flaw. And that is that BCE in

1 its director capacity, was one of 9 to 11 directors. That  
2 is the best I have on the evidentiary Record, and it is not  
3 as thorough as I wish, \$100,000 million worth of D&O  
4 coverage. That coverage, best as I can discern from the  
5 evidence before me, will apply with equal force to the other  
6 9 or 10 directors who are not released.

7           So if I'm wrong and if there's a claim, the  
8 company gave up one defendant in order to get the best deal  
9 that it could, when it still has claims against the other  
10 defendants. Is there a claim for this that might exceed the  
11 amount of available D&O coverage for the remaining  
12 directors? There is not a scintilla of evidence that there  
13 is such a large claim as that. I don't think there should  
14 be any complaint about that.

15           Second problem about the release is, is the  
16 structure and the bonds claim. The structure and the bonds  
17 claims is that only about 13-1/2 percent of the value of the  
18 releases will fall down to the existing claimants on behalf  
19 of their existing claims.

20           This one gets very confusing because it's true  
21 that the bondholders who are making the bid are also the  
22 largest unsecured creditors. The testimony is that they  
23 hold about 500 out of 525 of the claims. There's some  
24 problems with that.

25           First of all, those other 25 still need to get

1 treated right and they have a right to whatever it is they  
2 have a right to, and when you dilute it down to 13-  
3 1/2 percent compared to 100 percent or 90 percent that's  
4 still going to be available over on the BCE bid, they are  
5 worse off under that arrangement.

6 Second problem is, I don't have any evidence that  
7 all 500 are going to invest. And if all 500 don't invest  
8 those who don't, don't get to participate at 86-1/2 percent  
9 level.

10 And the third problem is that the secured  
11 creditors have a deficiency claim. And that deficiency  
12 claim under Fifth Circuit law, unless they consent  
13 otherwise, has the same right to treatment as to proceeds  
14 from the releases as any other unsecured creditor has.

15 So when I look at it overall and the value of the  
16 releases and how they flow through, the bonds claim by  
17 giving 86-1/2 percent of the value to the new money that  
18 comes in, preserves only 13-1/2 percent of any released  
19 proceeds.

20 The BCE claims probably preserves 100 percent.  
21 But even if it's less than 100 percent because the claim  
22 turns out to be more than the available D&O and BCE is rich  
23 and everybody else is poor, it just doesn't compare to the  
24 spread between that and the 13-1/2 percent that is  
25 preserved.



1           Second issue that is a very big issue to the Court  
2 in making its decision. The last two witnesses gave  
3 testimony that supported what I had concluded before they  
4 testified in a really important way. And that is, that the  
5 \$5 million deduction that was allocated towards the bonds  
6 deal for performance, is vastly understated. That deduction  
7 should be much greater than that.

8           The risk of non-performance by the bonds is huge  
9 for a few reasons. Number one, there's a timing issue that  
10 will apply to the *KFM* case. Well, *KFM*'s going to go broke  
11 before you get to the closing. No one ever addressed what  
12 to do about that problem.

13           The second problem is that as to the Alta-Mesa  
14 side, if the bonds don't perform they're not left with a  
15 backup and they don't have any alternative. So a failure  
16 costs far more than \$5 million. But do you have a reliable  
17 bidder so that the probability of failure is fairly low?  
18 The evidence is you don't. Certainly you have reliable  
19 financial institutions and major financial institutions that  
20 are backing the bid, but those major financial institutions  
21 I find were not sufficiently committed to the deal that you  
22 could hold their feet to the fire.

23           They weren't committed in a few ways. Number one.  
24 When they came to court prior to the stalking horse hearing  
25 we were told that they would make a 363 bid. They ran into

1 problems -- I'm not blaming anybody for that. But they ran  
2 into problems and they could no longer bid under 363. That  
3 then introduced the delay and it introduced a rush at the  
4 end. But it is demonstrative of their unreliability. They  
5 tell me they can do one thing and then they go to do  
6 something else.

7           Number two. When you look at the documents that  
8 are submitted, they're pretty standard documents. I'd sort  
9 of disagree with the Debtors characterization that they have  
10 outs that aren't normal in a deal like this. But there are  
11 still plenty of outs. Documents have to be in their sole  
12 discretion, other things have to fall into place. And the  
13 most important one is the Plan has to get confirmed.

14           The commitment that the same parties had made,  
15 though, was that they would not do things in their sole and  
16 absolutely discretion. I was told that if there was any  
17 problem I would have the right to force them to close. They  
18 didn't make it into the documents, as best I can read.  
19 Again, demonstrating some unreliability on the part of the  
20 offering parties.

21           But the most important part about the offer, as I  
22 indicated, is the ability to close in a plan context. The  
23 deal that is proposed includes a \$7-1/2 million allocation  
24 to the unsecured creditors. That obtained the support of  
25 the UCC and I understand why. That \$7-1/2 million they were

1 going to get to specially allocate, and I know why they  
2 wanted and I'm pleased they were doing their best for their  
3 clients to try and get it. But that money belonged to the  
4 secured banks. The Plan can't take money from the secured  
5 banks and allocate it over to the unsecured creditors, not  
6 over the secured banks' objection. This isn't an absolute  
7 priority rule. It's taking secured property away from a  
8 secured creditor without compensation. I can't do that.

9           So the Plan that is there, that has generated the  
10 settlement is a non-confirmable plan. So when you have a  
11 non-confirmable plan, and plainly if they can't do a 363  
12 deal, then the bonds offer has to be dependent on a plan.  
13 It's a plan we can't confirm. The risk is huge and it is  
14 far more than \$5 million. So I think the last two  
15 witnesses, I accept their testimony more.

16           Let me say that I think what was going on, and I  
17 will say this I think without criticizing anybody for doing  
18 it. But what's going on here is the fiduciaries were trying  
19 to hold up BCE for a higher deal. They were understating  
20 the deductions so that BCE would be forced to pay more in  
21 order to make a winning bid. It worked. They got \$10  
22 million out of it. Whether that's the right thing to do or  
23 not may be a different question.

24           But in terms of whether or not we demonstrate  
25 independence by the two independent directors, when in

1 effect they didn't hold them up by asserting -- and I'm  
2 proud of them for this -- asserting non-colorable claims  
3 against them. But I think there was a bit of a hold up and  
4 that I don't think they were given accurate information on  
5 what the true deducts were. Eh, BCE's a big guy. They're  
6 paying that extra money. I'm not going to revisit that.

7 But it shows the level of independence I think  
8 that was there. That is important as to what was going on.  
9 But it also means because the scales were tipped against BCE  
10 because they were the only viable bidder, it shows both  
11 independence and it shows that the deductions were too low.

12 I think that there were a couple things that were  
13 too high. I hope that it would not have cost \$5 million to  
14 document the Plan at this stage. But that's far offset by  
15 the closing risk. I really had very little evidence other  
16 than kind of a conclusionary statement of, we guess that was  
17 \$5 million. I don't give much credence to whether it's 5.  
18 But if it's 3, you know, I don't have any contrary evidence  
19 at all to that.

20 The final issue that I want to address today on  
21 the Record, and again if parties need additional findings I  
22 will make them upon request, is whether the allocation is  
23 fair.

24 I want to talk about the allocation. The  
25 allocation of the total bid is 72-1/2 percent to the Alta-

1 Mesa side and 27-1/2 percent to the KFM side. Is that a  
2 reasonable allocation? The testimony that mattered to me  
3 were two parts of it. But one part was actually more  
4 important. One is, it's what the secured creditors agree.  
5 The evidence is that they are the fulcrum creditors. So if  
6 one was entitled to a greater allocation than the other one,  
7 this is money directly out of their pocket and that the  
8 fulcrum parties agreed to it gives credence to the fact that  
9 it is fair market.

10 But the other thing that the testimony was is that  
11 the Debtors, in determining whether the 72-1/2/27-1/2 was  
12 fair, also separately looked at the bids they got from  
13 others, and they took the parties that they tried to marry  
14 up and they looked at what the allocation was between the  
15 married up parties and the 27-1/2 to 72-1/2. The testimony  
16 is uncontroverted, but it is consistent with that. I think  
17 when you put those two together that the allocation was a  
18 business judgment by the Debtors and it is one that on  
19 scrutiny I should affirm.

20 It's a one-sided ruling but it wasn't a one-sided  
21 hearing. The lawyering in this case was phenomenal, but in  
22 the end I think the facts are what the facts are and people  
23 couldn't change them. I reject the minor challenges to the  
24 studies. I do think they were minor. I think taking, for  
25 example an email that says, you know, maybe the agreement

1 should be this way shows some inappropriate control, is not  
2 an argument that someone that's used to seeing these deals  
3 believes has much credibility in terms of getting to a veil-  
4 piercing position. There are other sort of similar little  
5 nits in there and I simply don't credit them.

6           The result is I'm approving the deal. I want the  
7 stay in there. I want to get an order uploaded that  
8 approves it unless we already have one available in court  
9 right now that does that, and I'll sign one now. Or if you-  
10 all can get it uploaded I can sign it soon. Tell me how you  
11 want to proceed on that.

12           MS. RECKLER: Your Honor, we do have a propose  
13 order that we uploaded. We would need to strike one  
14 paragraph with some language the parties had been talking  
15 about that is no longer relevant.

16           THE COURT: How long would it take you to get the  
17 right order to me or do we have it in Word and we can fix  
18 it?

19           Can you-all get it done in about ten minutes and  
20 we'll come back out with it?

21           MS. RECKLER: We sent the Word version to your  
22 email address.

23           THE COURT: There is a Word version.

24           MS. RECKLER: We would just need to strike one  
25 paragraph.

1           THE COURT: So I'm not sure who wants to take the  
2 lead over on the opposing party side. But Mr. Winograd, you  
3 sort of took the lead so far, so I'm going to go ahead and  
4 ask you to do this.

5           Can I get you to decide whether you want  
6 additional findings of fact and conclusions of law, the two  
7 of you-all? If you-all do, please file something so that I  
8 know that I need to get a written opinion if you want more  
9 to appeal from than that.

10           And I need to get that done quickly so that you  
11 can get your appeal done. How long do you-all want to  
12 decide whether you want additional findings or not? Because  
13 I will grant a motion for more comprehensive findings if  
14 that's what you want. I just need you to tell me.

15           MR. STARK: Your Honor, may I? I know I haven't  
16 been ...

17           THE COURT: Sure. And you-all are welcome to take  
18 a few minutes and think about it, Mr. Stark.

19           MR. STARK: That's what I was going to ask.

20           THE COURT: Yeah. I mean, if you want to let me  
21 know tomorrow or Monday. I'm staying the closing until the  
22 12th. So it's really a question of I'll work pretty hard to  
23 try and get more comprehensive findings out. That is a lot  
24 of work, and I don't know that it helps you if you're not  
25 going to appeal it. If you want to appeal it and you want

1 more complete findings, I will make them for you and I will  
2 try and get them done as quickly as I can. So if you'll  
3 just tell me whatever deadline you want for filing that so  
4 that I can do my job.

5 MR. STARK: Your Honor, you're very kind in  
6 accommodating. I appreciate that. I think we need to  
7 assemble on our own, evaluate what Your Honor has put in the  
8 Record, whether or not from our opinion that's sufficient  
9 and what we intend to do next.

10 So if I could have, if it wouldn't burden the  
11 Court, until Monday morning to advise the Court. If that's  
12 too long?

13 THE COURT: That's great. No, no. If you will  
14 just file something by 5:00 o'clock on Monday, I'll look  
15 Tuesday morning at what I need to do. And if any other  
16 party -- if the prevailing parties think they need  
17 additional findings, they can also do it. I'm going to let  
18 you set the deadline.

19 MR. STARK: Thank you, Your Honor.

20 THE COURT: But they can also do it by 5:00  
21 o'clock on Monday. If it comes in after 5:00 o'clock on  
22 Monday, then you need to appeal the Record that you got.

23 MR. STARK: Understood, Your Honor. Thank you  
24 very much.

25 THE COURT: But it is going to take some time to



1 do it. Thank you.

2 And you weren't here for very much of this.

3 MR. STARK: I came in late.

4 THE COURT: Your folks did a great job, and so the  
5 fact I ruled against them is no reflection on the quality of  
6 the work. The work was great.

7 MR. STARK: I very much appreciate that. Thank  
8 you.

9 THE COURT: Thank you. Mr. Pesce.

10 MR. PESCE: Gregory Pesce, Kirkland Ellis on  
11 behalf of IUC. And first off, thank you very much, Your  
12 Honor. We appreciate your ruling and the time you spent at  
13 the hearing.

14 THE COURT: I can't hear you, Mr. Pesce.

15 MR. PESCE: We appreciate your time that you spent  
16 on the hearing and the promptness of your ruling.

17 In speaking with Ms. Reckler and her colleagues  
18 and the \*4:52:45 team, the order is substantially final.  
19 We're making some clarifying changes that were recommended  
20 to us by other parties during the hearing. So what the  
21 buyer and I understand the two banks are comfortable with is  
22 that as long as the sale has been approved as it has been on  
23 the Record, we will work to get the order to you this  
24 evening. And if not, very early tomorrow morning after  
25 collecting the final clarifying changes from some of the

1 parties in the courtroom.

2 THE COURT: So what have I to do then if that's  
3 what we're going to then is I'm going to schedule a  
4 telephonic hearing so that the opposing parties can object  
5 to the form of the order, otherwise -- it needs to be done  
6 promptly, but if you upload it they're not going to have a  
7 reasonable time to object.

8 You guys go home to New York, dial in on the  
9 phone, put it up on the screen and let you watch the changes  
10 so we can take objections.

11 What time in the morning can we do that?

12 MR. PESCE: Any time.

13 THE COURT: How about -- so I can do it at 9:30 if  
14 you want, or I can do it at 11:30 if you want.

15 MR. PESCE: Yeah. Why don't we do it at 11:30 if  
16 that works for Your Honor?

17 THE COURT: That will work for you-all?

18 MR. PESCE: Yes, Your Honor.

19 THE COURT: You okay with that?

20 MS. BUCHWALD: Yes.

21 THE COURT: Okay. So we'll continue today's  
22 hearing to 11:30. I want the banks to announce their  
23 assent, if that's what we're going to do. And assuming that  
24 we will continue hearing until 11:30 in the morning. It  
25 will be telephonic.

1 MR. PESCE: Thank you.

2 MS. DiBLAS: Just to be clear, Your Honor, there  
3 will be two orders. One for the Alta-Mesa Debtors, one for  
4 KFN Debtors.

5 THE COURT: I don't care if it's two orders or one  
6 order. We're going to end up only in the one docket sheet.  
7 It's a joint administered docket sheet. So whatever -- if  
8 you-all want to combine it into one so that you're looking  
9 at one, that's fine. Two is fine with me.

10 MS. DiBLAS: I think we'll stick with two, but,  
11 yes, they'll go on the same docket. Thank you.

12 THE COURT: Mr. Wallander.

13 MR. WALLANDER: Your Honor, Bill Wallander on  
14 behalf of the agent for KFM. We did file a limited  
15 objection to the sale. It was along the lines of giving the  
16 state of our estate and that we've paid off virtually all  
17 the vendors in the case; that we don't have the problems of  
18 AMH.

19 The lender group in the KFM estate would like to  
20 receive some of the collateral proceeds as adequate  
21 protection at closing. And the request we've made is to  
22 leave \$23 million in KFM, which we think should be more than  
23 enough to wind up that estate and have a transfer of \$65  
24 million to the lender for the KFM estate.

25 THE COURT: Okay. I'm not doing that now. I may

1 do it later, but I'm not doing it now. I don't have any  
2 evidence before me on including a provision like that.  
3 None. I don't have a problem in general with it. And so if  
4 you want to come back for something before the sale that  
5 says that, where people can get notice of what that would  
6 be, that's fine. I also want to keep the sale clean from  
7 any plan provisions in what we're doing. So I'm not going  
8 to put that in this order. But I'm not in any way denying  
9 it substantively at all, if that's appropriate to do. We'll  
10 think about that very soon.

11 MR. WALLANDER: Understood, Your Honor.

12 THE COURT: Does your client consent to entry of  
13 an order tomorrow without being in breach of --

14 MR. WLLANDER: Yeah. Wells Fargo has no objection  
15 to the sale, Your Honor. Thank you.

16 MR. WOOD: Good afternoon, Your Honor. Trey Wood  
17 on behalf of Wells Fargo Bank as agent for the AMH secured  
18 creditors.

19 Your Honor, the AMH agent consents to the moving  
20 the milestone an additional day to tomorrow for the entry of  
21 the sale order. We appreciate the Court's time and  
22 appreciate the Court's ruling today. Thank you.

23 THE COURT: All right. We'll see everybody on the  
24 phone tomorrow at 11:30. If anyone wants to come down I'm  
25 going to be out here in open court, you can come if you

1 want, but it will be telephonic.

2           You can leave your stuff overnight. The first  
3 hearing we have in court tomorrow morning, I have a  
4 telephonic at 9:00. There's a 10:00 o'clock live hearing  
5 tomorrow. So if you want your boxes picked up in the  
6 morning, try and get here nice and early and you can get  
7 that done. You can leave them overnight.

8           Mr. Flores?

9           MR. FLORES: Your Honor, would the courtroom be  
10 accessible after your morning docket?

11           THE COURT: The courtroom will be accessible all  
12 afternoon.

13           MR. FLORES: Thank you.

14           THE COURT: There may be some people in here doing  
15 some technology upgrades, but that will be it.

16           MR. FLORES: Thank you, Your Honor. I just didn't  
17 know if we \*4:57:32

18           (En masse.) Thank you, Your Honor.

19           (Proceedings adjourned 4:57 p.m.)

20

21

22

23

24

25

\* \* \* \* \*

1           I certify that the foregoing is a correct  
2 transcript to the best of my ability produced from the  
3 electronic sound recording of the proceedings in the above-  
4 entitled matter.

5 /S/ MARY D. HENRY

6 CERTIFIED BY THE AMERICAN ASSOCIATION OF  
7 ELECTRONIC REPORTERS AND TRANSCRIBERS, CET\*\*337  
8 JUDICIAL TRANSCRIBERS OF TEXAS, LLC  
9 JTT TRANSCRIPT #61507  
10 DATE FILED: JANUARY 25, 2020